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Corp Report file

**ANNUAL
REPORT
TO
SHAREHOLDERS
1965**

HUGH RUSSEL & SONS, LIMITED

HUGH RUSSEL & SONS, LIMITED

HUGH RUSSEL & SONS, LIMITED

DIRECTORS

R. C. BROWN	<i>President, Master Mechanical Manufacturing Limited,</i>	TORONTO
R. P. K. COUSLAND	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
J. P. FOSTER	<i>Vice-President, Hugh Russel & Sons, Limited,</i>	TORONTO
M. D. GLENN	<i>President, Russelsteel Limited,</i>	MONTREAL
R. HARTOG	<i>President, Kitchen Installations Ltd.,</i>	MIDLAND
W. S. JAMIESON, Q.C.	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
G. E. PHIPPS	<i>Chairman, Dominion Securities Corporation Limited,</i>	TORONTO
J. D. REILLY, Q.C.	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
A. D. RUSSEL	<i>President, Hugh Russel & Sons, Limited,</i>	TORONTO
G. D. RUSSEL	<i>Chairman, Hugh Russel & Sons, Limited,</i>	MONTREAL
L. A. ROBIDOUX	<i>Sales Executive, Russelsteel Limited,</i>	MONTREAL
J. G. K. STRATHY	<i>Vice-President, Dominion Securities Corporation Limited,</i>	TORONTO
J. W. VINGOE	<i>President, Sunshine Office Equipment Limited,</i>	KITCHENER

EXECUTIVE OFFICERS

G. D. RUSSEL	- - - - -	<i>Chairman of the Board</i>
A. D. RUSSEL	- - - - -	<i>President</i>
R. C. BROWN	- - - - -	<i>Vice-President</i>
M. D. GLENN	- - - - -	<i>Vice-President</i>
J. P. FOSTER	- - - - -	<i>Vice-President</i>
G. D. SHEARER, C.A.	- - - - -	<i>Secretary-Treasurer</i>

FISCAL AGENTS AND REGISTRARS

TRANSFER AGENTS	- - - - -	<i>Royal Trust Company</i>
BANKERS	- - - - -	<i>Canadian Imperial Bank of Commerce</i>
UNDERWRITERS	- - - - -	<i>Dominion Securities Corporation Limited</i>

STOCK EXCHANGES

- - - - - *Montreal and Toronto*

AUDITORS AND SOLICITORS

AUDITORS	- - - - -	<i>Clarkson, Gordon & Co.</i>
SOLICITORS	- - - - -	<i>Salter, Reilly, Jamieson & Apple</i>

SUBSIDIARY COMPANIES

RUSSELSTEEL LIMITED
RUSSELSTEEL COMPANY
MASTER MECHANICAL MANUFACTURING LIMITED

EXECUTIVE OFFICES

215 BOWES ROAD • VAUGHAN TOWNSHIP • TORONTO
MAILING ADDRESS • P.O. BOX 186 • DOWNSVIEW, ONTARIO

ANNUAL MEETING

ROYAL YORK HOTEL • TORONTO • APRIL 27TH, 1966.

Financial Highlights

(Dollar figures in thousands)

	1965	1964	1963	1962	1961	1960
OPERATING RESULTS						
Net Sales - - - - -	\$22,975	\$19,436	\$15,015	\$14,218	\$14,051	\$13,406
Earnings before						
deducting the following: - - -	\$ 1,309	\$ 1,125	\$ 631	\$ 506	\$ 397	\$ 365
Depreciation - - - - -	\$ 155	\$ 133	\$ 121	\$ 122	\$ 131	\$ 127
Interest on long term debt - - -	\$ 50	\$ 53	\$ 58	\$ 63	\$ 68	\$ 74
Income Taxes - - - - -	\$ 577	\$ 461	\$ 140	\$ 129	\$ 32	\$ 49
Net earnings - - - - -	\$ 527	\$ 478	\$ 312	\$ 192	\$ 166	\$ 115
% of net sales - - - - -	2.3%	2.5%	2.1%	1.4%	1.2%	0.9%
% of shareholders' equity - - -	13.8%	14.2%	9.9%	6.3%	5.8%	4.2%

SHAREHOLDER DATA

Number of common shares						
outstanding - - - - -	292M	289M	288M	288M	288M	288M
Net earnings per common share - -	\$ 1.80	\$ 1.65	\$ 1.08	\$.67	\$.57	\$.40
Cash flow per common share - - -	\$ 2.36	\$ 2.11	\$ 1.50	\$ 1.09	\$ 1.03	\$.84
Dividends per common share - - -	\$.75	\$.60	\$.60	\$.45	\$ —	\$ —

BALANCE SHEET ITEMS

Working Capital - - - - -	\$ 3,550	\$ 2,430	\$ 2,710	\$ 2,512	\$ 2,449	\$ 2,332
Current ratio - - - - -	1.5:1	1.4:1	1.6:1	1.7:1	1.6:1	1.7:1
Additions to facilities - - - - -	\$ 1,153	\$ 992	\$ 51	\$ 32	\$ 57	\$ 380
Long term debt - - - - -	\$ 2,500	\$ 671	\$ 730	\$ 819	\$ 905	\$ 989
Debt/equity ratio - - - - -	.39:61	.15:85	.18:82	.21:79	.23:77	.25:75

NOTE: Results for 1965 include 5 months operations for Master Mechanical Manufacturing Limited.

Report to the Shareholders

The substantial investment programme undertaken by your company in 1964 is now nearing successful completion. This program, plus modifications in the structure of the organization, will have a great bearing on the immediate and long range capabilities of your company.

The following review of the status of these major developments point up the financial health and vigor of the company as it enters 1966. Areas of particular interest are:

- (i) Improved physical resources to promote efficient operations and growth.
- (ii) Improved organizational structure to emphasize individual management contribution.
- (iii) Enlarged scope of activity.

RUSSELSTEEL LIMITED

Effective January 1966, all steel distribution operations have been consolidated in Russelsteel Limited, a wholly owned subsidiary company, under the Presidency of Mr. M. D. Glenn, who possesses an intimate knowledge of steel distribution having served Russelsteel in increasingly responsible capacities for over 25 years.

Operations have been conducted in Ontario under the Russelsteel name since 1960. The combination of Montreal and Winnipeg operations under the same name will give consistent public identity to the Company's activities in the Canadian steel industry.

From these centres the major industrial areas of the country can be efficiently serviced. Each centre will be the headquarters of a separate division.

Eastern Division

The Quebec and the Maritime Provinces are serviced from Montreal.

Steady increases in volume handled by this division have required an addition to the Montreal Warehouse which was constructed in 1960. The total working area is now 250,000 sq. feet.

Central Division

The Province of Ontario is covered from the Service Centre completed in 1965, on the outskirts of Toronto. Presently this centre has a working area of 168,000 square feet, with ready access to truck and rail transportation.

The consolidation of operations in Ontario from three separate locations is now complete. Costs of the move were heavy due not only to the move itself but also to start up of new equipment and methods. These problems are now overcome, and operations reflect the benefits of consolidation in reduced costs.

Western Division

Manitoba and Saskatchewan are serviced from Winnipeg. Here again, volume has expanded beyond the capacity of present facilities. Before the end of June 1966, operations will have been moved to a new 10 acre site with working space totalling 42,500 sq. feet. The old property will be disposed of.

Operations

Working area is emphasized in these remarks since adequate and properly utilized floor space means increased efficiency through the segregation of the heavy materials involved and the avoidance of double handling.

The company now utilizes 24 overhead travelling cranes having individual lifting capacities up to 20 tons and each steel service centre is equipped to cut and shape material to customer specification.

Steel Industry Outlook

The Primary steel producers, and independent research organizations have recently published forecasts which indicate substantial growth in the production and consumption of steel in Canada during the coming five years. A study by the Canadian Steel Warehousing Association indicates that the steel service centre industry can be expected to handle an increasing share of this

market. The Company's existing outlets, strategically located with substantially expanded facilities and strengthened sales organizations, are well equipped to improve their share of this significant market.

MASTER MECHANICAL MANUFACTURING LIMITED

As Canada enters a period of intensive competitive expansion in secondary industry, the need for tooling new and expanded manufacturing plants will take on growing importance. In order to enter this market, Master Mechanical was purchased in 1965.

The management team, under the presidency of Mr. R. C. Brown, previously Vice-President Administration of Hugh Russel & Sons, Limited is technically qualified to take advantage of the growth and earnings potential in this field.

CORPORATE MANAGEMENT

During 1965, the structure of corporate management was reorganized to more clearly define operating and planning responsibilities. Parent company management assumes a twofold responsibility in the area of planning:

- (i) the co-ordination necessary to ensure that all companies within the group are performing to best advantage.
- (ii) The investigation, negotiation and organization necessary to expand existing operations and to bring new activities into the group.

Assisting the President, Mr. A. D. Russel, in the overall direction of the company is the President's Advisory Board comprising the chief executive officers of the operating companies, the Secretary-Treasurer and the Vice-President Corporate Planning. Mr. J. P. Foster, M.B.A., joined Hugh Russel & Sons, Limited during 1965 to fill the latter position. In February 1966, Mr. Foster was appointed to the Board of Directors succeeding Mr. B. N. Apple, Q.C.

FINANCIAL RESOURCES

To finance the company's capital expenditure program and increased level of sales, your directors arranged to issue \$2,500,000, 6¼% sinking fund debentures, maturing in 20 years. The

previous mortgage, of approximately \$700,000 was retired and financial needs for present operations are now adequately covered.

Working Capital, reflecting the addition of these new funds, increased by \$1,119,354 after substantial outlays on our capital expenditure program.

FINANCIAL STATEMENTS

Sales

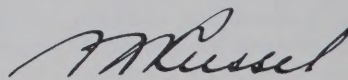
Sales which include five months operations of Master Mechanical Manufacturing Limited, have continued to increase steadily with the 1965 year showing an improvement of 18% over 1964.

Net Earnings

Net earnings after taxes, calculated on the new basis of depreciation (see notes to the financial statements) were \$1.80 per share, an improvement over the previous years earnings of \$1.65 per share. This was achieved in spite of additional expenses incurred in moving the Ontario Division of Russelsteel to new premises and a higher effective tax rate.

The Directors would like to take this opportunity of thanking employees, customers and suppliers for their support in 1965.

On behalf of the Board of Directors,



President

April 4th, 1966.

Auditors' Report

To the Shareholders of Hugh Russel & Sons, Limited :

We have examined the consolidated balance sheet of Hugh Russel & Sons, Limited and its subsidiary companies as at December 31, 1965 and the statements of consolidated earnings and consolidated retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statements of consolidated earnings and consolidated retained earnings present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in basis of computing depreciation referred to in note 2, which change we approve.

Our examination also included the accompanying statement of consolidated source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and applications of funds of the companies for the year ended December 31, 1965.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada
March 10, 1966.

HUGH RUSSEL & SONS, LIMITED

HUGH RUSSEL

(Incorporated under the laws of the State of California)
and its subsidiaries

CONSOLIDATED

Balance Sheet
December 31, 1965
(with comparative figures for 1964)

ASSETS

1965 1964

Current:

Accounts receivable, less allowance for doubtful accounts - - -	\$ 4,021,079	\$ 3,707,623
Inventories valued at the lower of cost or market - - - - -	5,928,747	4,512,682
Prepaid expenses - - - - -	75,519	52,575
Total current assets - - - - -	<u>\$10,025,345</u>	<u>\$ 8,272,880</u>

Fixed, at cost:

Buildings - - - - -	\$ 2,342,752	\$ 1,804,095
Machinery and equipment - - - - -	1,374,883	1,033,964
	<u>\$ 3,717,635</u>	<u>\$ 2,838,059</u>

Less accumulated depreciation - - - - -	1,140,414	904,760
	<u>\$ 2,577,221</u>	<u>\$ 1,933,299</u>

Land - - - - -	323,832	163,321
Total fixed assets - - - - -	<u>\$ 2,901,053</u>	<u>\$ 2,096,620</u>

\$12,926,398 \$10,369,500

On behalf of the Board:

A. D. RUSSEL, *Director*

M. D. GLENN, *Director*

SONS, LIMITED

the laws of Canada)
/ companies

BALANCE SHEET

1, 1965

at December 31, 1964)

LIABILITIES

	1965	1964
Current:		
Bank indebtedness (against which certain assets are pledged) -	\$ 2,342,939	\$ 1,517,323
Short term loan payable - - - - -	1,000,000	1,000,000
Accounts payable and accrued charges - - - - -	2,921,492	2,969,815
Income taxes payable - - - - -	211,137	328,517
Current instalments payable on Long-Term debt - - - - -		26,802
Total current liabilities - - - - -	<u>\$ 6,475,568</u>	<u>\$ 5,842,457</u>
Deferred Income Taxes - - - - -	<u>\$ 66,500</u>	<u>\$ 40,000</u>
Long-Term Debt (note 3) - - - - -	<u>\$ 2,500,000</u>	<u>\$ 671,436</u>
Shareholders' equity:		
Capital stock (note 4)		
Authorized:		
50,000 preferred shares of the par value of \$100 each, issuable in series		
1,000,000 common shares without nominal or par value		
Issued:		
292,191 common shares (1964—289,042 shares) - -	95,072	63,352
Retained earnings - - - - -	<u>3,789,258</u>	<u>3,752,255</u>
Total shareholders' equity - - - - -	<u>\$ 3,884,330</u>	<u>\$ 3,815,607</u>
	<u>\$12,926,398</u>	<u>\$10,369,500</u>

(See accompanying Notes)

HUGH RUSSEL & SONS, LIMITED

HUGH RUSSEL & SONS, LIMITED

and its subsidiary companies

Statement of Consolidated Earnings

For the Year Ended December 31, 1965

(with comparative figures for 1964)

	1965	1964
Sales - - - - -	<u>\$22,975,047</u>	<u>\$19,436,130</u>
Earnings from operations before deducting the following: - - - -	\$ 1,308,810	\$ 1,125,402
Depreciation (note 2) - - - - -	154,578	132,902
Interest on long-term debt - - - - -	<u>50,032</u>	<u>53,400</u>
Earnings before income taxes - - - - -	\$ 1,104,200	\$ 939,100
Income taxes (note 6) - - - - -	<u>577,000</u>	<u>461,000</u>
Net earnings - - - - -	<u>\$ 527,200</u>	<u>\$ 478,100</u>

Statement of Consolidated Retained Earnings

For the Year Ended December 31, 1965

(with comparative figures for 1964)

Balance, beginning of year - - - - -	\$ 3,752,255	\$ 3,308,760
Net earnings - - - - -	527,200	478,100
Profit on sale of fixed assets - - - - -	<u>14,735</u>	<u>82,769</u>
	\$ 4,294,190	\$ 3,869,629
Dividends paid - - - - -	218,938	117,374
Premium paid on acquisition of subsidiary - - - - -	141,409	
Expense of debenture issue (less income taxes) - - - - -	<u>144,585</u>	
Balance, end of year - - - - -	<u>\$ 3,789,258</u>	<u>\$ 3,752,255</u>

(See accompanying notes)

HUGH RUSSEL & SONS, LIMITED

and its subsidiary companies

Statement of Consolidated Source and Application of Funds

For the Year Ended December 31, 1965

(with comparative figures for 1964)

	1965	1964
Funds were obtained from:		
Operations—		
Net earnings - - - - -	\$ 527,200	\$ 478,100
Expenses not requiring a current cash outlay:		
Depreciation - - - - -	154,578	132,902
Income taxes (deferred portion) - - - - -	26,500	40,000
	<u>708,278</u>	<u>651,002</u>
Proceeds of debenture issue (less expenses) - - - - -	2,355,415	
Sale of fixed assets - - - - -	67,124	225,750
Stock options exercised - - - - -	31,720	11,252
	<u>3,162,537</u>	<u>888,004</u>
Funds were applied to:		
Purchase new facilities (including acquisition of subsidiary) - - -	1,152,809	991,908
Pay dividends - - - - -	218,938	117,374
Repay mortgage principal - - - - -	671,436	58,580
	<u>2,043,183</u>	<u>1,167,862</u>
Increase (decrease) in working capital - - - - -	1,119,354	(279,858)
Working capital at beginning of year - - - - -	2,430,423	2,710,281
Working capital at end of year - - - - -	<u>\$ 3,549,777</u>	<u>\$2,430,423</u>

(See accompanying notes)

HUGH RUSSEL & SONS, LIMITED

and its subsidiary companies

Notes to Consolidated Financial Statements

DECEMBER 31, 1965

1. Principles of consolidation

The financial statements include the accounts of the parent company and all subsidiary companies. The results of operations of Master Mechanical Manufacturing Limited are included in the statement of consolidated earnings from the effective date of acquisition, August 1, 1965. The excess of the cost of this subsidiary over the book value of net assets acquired has been applied against retained earnings.

2. Depreciation policy

As a result of a review during 1965 of depreciation policy, the companies changed from the reducing balance method to the straight line method of recording depreciation, with effect from January 1, 1965. As a result of this change, net earnings increased by approximately \$28,000.

3. Long term debt

During 1965, the company refinanced its long term debt by repaying the 6¼% mortgage and issuing \$2,500,000 6¼% Secured Sinking Fund Debentures, Series A, maturing October 15, 1985. The debentures are secured by a first mortgage on the fixed assets of the company and certain subsidiaries and a first floating charge on their remaining assets. The trust deed provides for a sinking fund to retire by redemption \$1,500,000 principal amount by progressive annual appropriations in the years 1967 to 1984 inclusive. Under the terms of the trust deed, the company is prohibited from paying dividends other than cumulative preferred dividends or stock dividends if consolidated equity is reduced to less than \$3,500,000 or consolidated net current assets are reduced to less than \$2,000,000.

4. Capital stock

- (a) By supplementary letters patent dated May 5, 1965 the authorized capital was changed in the following respects:

1. 700,000 class "A" shares and 300,000 class "B" shares were redesignated as common shares.

2. The remainder of the previously authorized capital was cancelled.

3. The authorized capital was increased by the creation of 50,000 preferred shares of the par value of \$100 each, issuable in series.

- (b) During 1965 3,149 common shares were issued for \$31,720 cash as a result of the exercise of options granted to officers and employees under the company's stock option plan. At December 31, 1965 further options were outstanding on 1,200 common shares at \$9.67 per share, 6,300 shares at \$9.23 per share and 7,086 common shares at \$12.15 per share. The options are exercisable in instalments over periods ending February 10, 1975.

Subsequent to December 31, 1965 options on a further 5,000 common shares were granted at a price of \$16.20 per share.

A further 4,845 common shares are reserved for additional options to be granted in future at prices not less than 90% of the market value at the time of granting the options.

5. Commitments

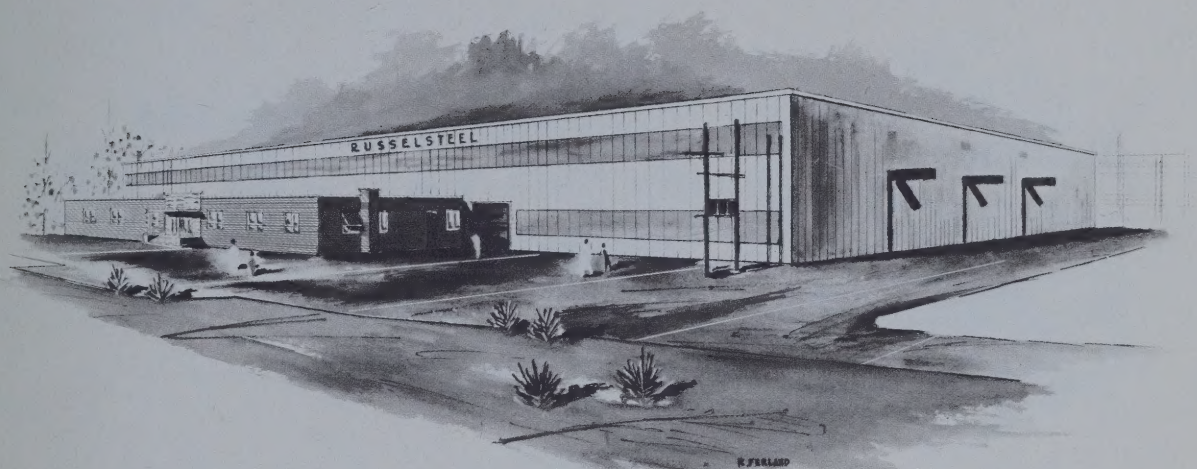
At December 31, 1965 the companies are committed to complete construction of new premises at a cost of approximately \$365,000.

6. Income taxes

The income taxes as shown for the year 1964 were reduced and the net earnings for that year increased by a special tax credit of \$32,000 resulting from the carry-forward of losses of subsidiaries incurred in pre-acquisition periods.

7. Statutory information

Remuneration paid to directors (including those holding executive office) amounted to \$160,700 in 1965.



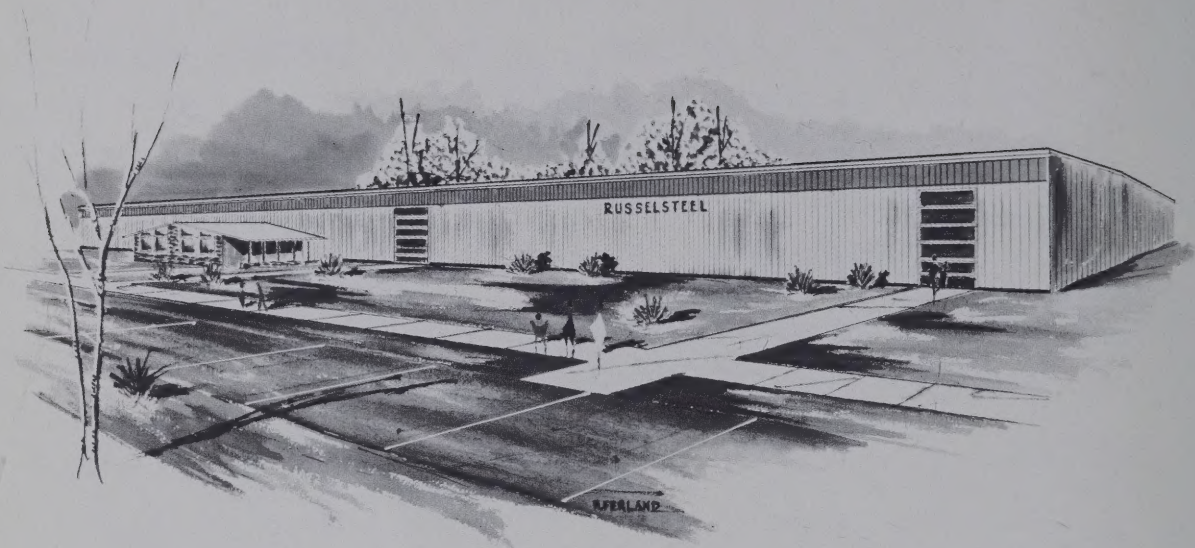
RUSSELSTEEL TORONTO PLANT—This modern facility services Ontario from 168,000 square feet. Equipment con-

sists of 10 overhead cranes, shears, saws and the latest in shape burning equipment.



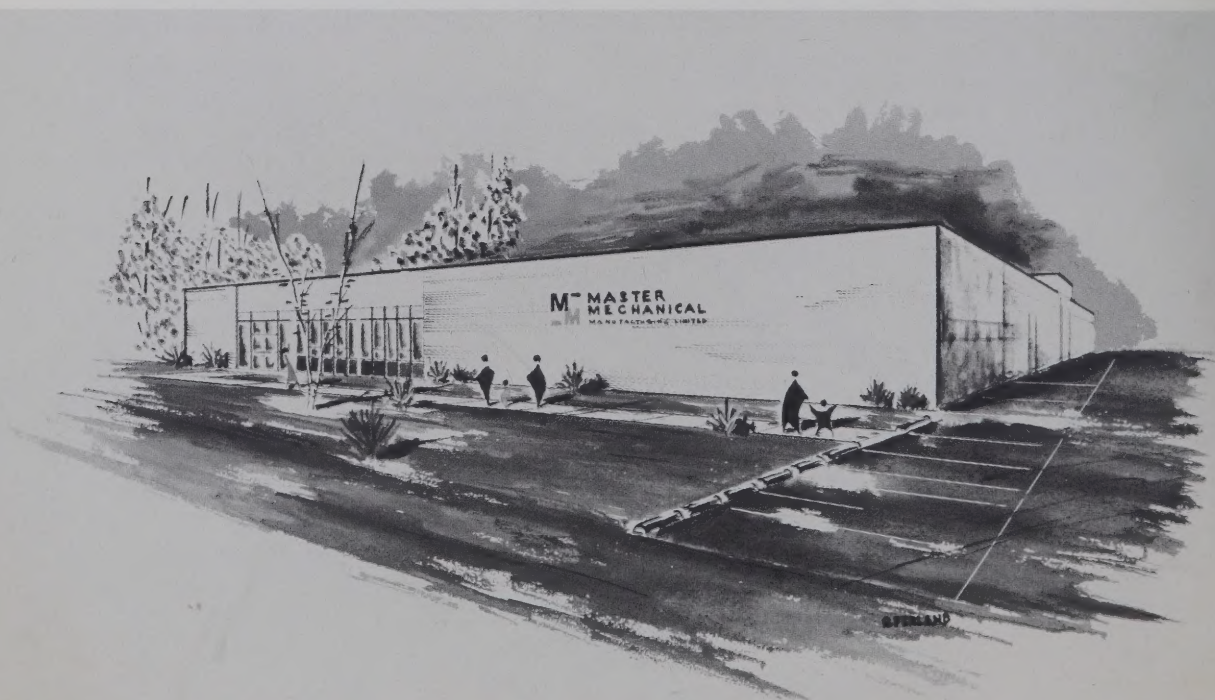
RUSSELSTEEL MONTREAL PLANT—This is the most modern Steel Service Centre in Canada with approximately

250,000 square feet of floor space and equipment for processing material to customer specification.



RUSSELSTEEL WINNIPEG PLANT—Now under construction, this plant, when in full operation by July of this year, will be the largest steel service centre on the Prairies,

with 42,500 square feet of plant space. It is fully equipped to process material to customer specification.



MASTER MECHANICAL MANUFACTURING LIMITED—This modern plant of 30,000 square feet is designed to serve Canadian Industrial needs for special

production equipment and tooling, from original design to finished product. Brochures giving complete details are available on request.

HUGH RUSSEL & SONS, LIMITED

